STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on June 22, 2023

COMMISSIONERS PRESENT:

Rory M. Christian, Chair
Diane X. Burman
James S. Alesi
Tracey A. Edwards
John B. Howard
David J. Valesky
John B. Maggiore

CASE 22-E-0668 - Minor Rate Filing of Pennsylvania Electric Company to Increase its Annual Revenues by About $300,000 or 3.49 Percent.

ORDER GRANTING RATE INCREASE

(Issued and Effective June 23, 2023)

BY THE COMMISSION:

INTRODUCTION

On November 28, 2022, Pennsylvania Electric Company (Penelec or the Company) filed tariff revisions to its electric tariff schedule, P.S.C. No. 7 – Electricity, and supporting documents (Rate Filing), proposing to increase its annual revenues by $300,000, or approximately 14.04 percent of base delivery revenues and 3.49 percent of total revenues, to become effective May 1, 2023. On March 31, 2023, Penelec filed a supplement to postpone the effective date to July 1, 2023. By this Order, Penelec is authorized to increase its annual revenues by $300,000 per year effective July 1, 2023.[1]

BACKGROUND

Penelec primarily does business as a public electric utility in Pennsylvania, subject to the regulation and oversight of the Pennsylvania Public Utility Commission.[2] Penelec serves approximately 590,000 customers in New York and Pennsylvania combined, of which approximately 3,900 residential, commercial, and industrial customers are located within the Village of Waverly and the Town of Barton in Tioga County, New York. Penelec's New York service territory is referred to herein as the Waverly District. The New York State Public Service Commission (Commission) most recently set rates for the Waverly District on May 18, 2018.[3] In that case, Penelec did not provide specific costs of rendering service to the Waverly District, as the sales revenues and number of customers in the Waverly District comprise less than one percent of the Company's customer base. Instead, Penelec allocated its expenses between its Pennsylvania operations and the Waverly District using

[1] As a result of the postponement filed by Penelec and the instant Order, the Rate Year is now July 1, 2023, through June 30, 2024.

[2] Penelec's parent company is FirstEnergy Corporation (FirstEnergy), which owns and operates 10 electric utility companies in the Midwest and Mid-Atlantic Regions of the United States, including: Ohio Edison, The Illuminating Company, Toledo Edison, Met-Ed, Penelec, Penn Power, West Penn Power, Jersey Central Power & Light, Mon Power, and Potomac Edison.

[3] Case 17-E-0685, Pennsylvania Electric Company – Electric Rates, Order Granting Rate Increase (issued May 18, 2018) (2018 Rate Order). The Commission approved a rate increase of $300,000, or a 17.75 percent increase to base delivery revenues and a 5.2 percent increase to total revenues, effective June 1, 2018.

jurisdictional allocation factors, consistent with the allocation factors the Company used during its most recent Pennsylvania rate proceeding.[4] The expenses allocated to the Waverly District were equal to those excluded from Penelec's Pennsylvania service territory. This methodology is consistent with the methodology the Commission used to set base delivery rates in the 2018 Rate Order.

In its Rate Filing, the Company asserts that a rate increase is necessary to furnish safe and reliable service and to provide the Company with an opportunity to earn a return on its investment in distribution assets. The Company's Rate Filing is based on the same cost of service study, and the same New York – Pennsylvania allocations developed from that cost of service study, which the Commission used to set rates in the 2018 Rate Order and that the Pennsylvania Public Utilities Commission used in the 2017 Pennsylvania Rate Proceeding. The Rate Filing includes tariff revisions to become effective on May 1, 2023.[5] On March 31, 2023, Penelec filed a supplement to postpone the effective date to July 1, 2023.

Appendix A to this Order identifies the tariffs amendments. Appendix B to this Order sets forth the revenue requirement, both as filed and as authorized by this Order. Appendix C shows the newly authorized rates and bill tables for the different customer types and usage levels. Appendix D provides the responses to information requests (IRs) referenced in this Order.

---

[4] Pennsylvania Public Utilities Commission, Docket No. R-2016-2537352, effective on January 27, 2017 (2017 Pennsylvania Rate Proceeding).

[5] In the Rate Filing, Penelec defined the Rate Year as May 1, 2023, through April 30, 2024.

NOTICE OF PROPOSED RULEMAKING

Pursuant to the State Administrative Procedure Act (SAPA) §202(1), a Notice of Proposed Rulemaking was published in the State Register on December 28, 2022 [SAPA No. 22-E-0668SP1]. The time for submission of comments pursuant to the Notice expired on February 27, 2023. No comments were received.

LEGAL AUTHORITY

Pursuant to Public Service Law (PSL) §§5, 65(1), 66(1), and 66(12), the Commission has the legal authority to review proposed tariff leaves, as well as modify, reject, or approve such filed tariffs. As such, the Commission has the legal authority to review Penelec's Rate Filing and approve and make effective tariff amendments as prescribed in this Order.

DISCUSSION

Allocation of Expenses to the Waverly District

In its Rate Filing, Penelec did not provide specific costs of rendering service to the Waverly District, as the sales revenue and number of customers in the Waverly District comprise less than one percent of those for the entire Company. Instead, Penelec allocated its expenses between its Pennsylvania operations and the Waverly District using jurisdictional allocation factors. Penelec developed its allocation factors using a cost of service study following the guidelines the National Association of Regulatory Utility Commissioners (NARUC) published in the Electric Utility Cost Allocation Manual (Manual).[6] Specifically, the Company used jurisdictional allocation factors that it developed using five different cost

[6] The NARUC Manual is available using the following NARUC website link: https://pubs.naruc.org/pub.cfm?id=53A3986F-2354-D714-51BD-23412BCFEDFD.

of service demand and customer-related allocators: non-coincident peaks; customer deposits; customer service expenses and revenues; meter expenses; and write-offs.

Utilities more commonly use the Massachusetts formula, or a variation thereof, to allocate common expenses. The Massachusetts formula weighs gross plant, direct labor, and gross revenues. However, since Penelec does not have employees located in the Waverly District and does not separately record its plant assets used to provide service in the New York service territory, the use of the Massachusetts formula would not be reasonable here.

The Commission tested the reasonableness of Penelec's proposed cost allocations by developing a test allocator that weighted the number of customers located in the Waverly District as compared to the rest of the Penelec service territory. Applying the test allocator to the Company's total operating expenses produced similar results, and thus did not result in a need to make any material adjustment to the cost of service elements or the resulting revenue requirement. Moreover, the Company followed the guidelines in the NARUC Manual in developing the jurisdictional allocation factors it used to allocate expenses to the Waverly District. Accordingly, the Commission determines the allocation method used by Penelec is appropriate and is consistent with the method the Commission has adopted in previous New York rate cases for the Waverly District.

Adjustment to Base Delivery Revenues - Weather Normalization

In its Rate Filing, Penelec adjusted its Historic Test Year base delivery revenues to forecast its Rate Year base delivery revenues.[7] The Company developed its proposed

[7] The Historic Test Year is defined as July 1, 2021, through June 30, 2022.

adjustment to base delivery revenues using its parent company's company-wide weather normalization analysis. The weather normalization analysis compared FirstEnergy's company-wide sales during the Historic Test Year to the average actual sales over the past 20 years, by month. The difference in monthly sales between the Historic Test Year and the 20-year average were multiplied by actual revenues divided by actual sales in each month to develop the revenue change, by month. Penelec then adjusted its base delivery revenues by multiplying the FirstEnergy company-wide annual revenue change by a jurisdictional allocation factor. This weather normalization analysis resulted in a $1,548 decrease in Penelec's base revenues from the Historic Test Year and a total forecast of Rate Year base revenues at existing rates of $2,196,968.

The weather normalization methodology Penelec used, however, does not reflect the weather normalization methodology the Commission has previously adopted.[8] The Commission found only sales to residential customers, specifically service classification No. 1, to be weather sensitive in the Historic Test Year and therefore subject to weather normalization. The Commission weather normalized sales for the weather-sensitive service classification using the method the Commission previously adopted. The Commission uses the average of the two lowest months' Historic Test Year sales to identify the portion of overall sales that are not weather dependent. We consider any sales in the winter months in excess of this volume to be weather-dependent. We then multiply the weather-dependent portion of the sales volumes of each winter month by the percentage difference between that month's monthly heating

[8] Case 18-E-0722, Hamilton Municipal Utilities Commission – Rates, Order Determining Revenue Requirement and Rate Design (issued September 20, 2019), n. 4.

degree days (HDDs) during the Historic Test Year and the ten-year average of HDDs for that month.

The Commission's approach to weather normalization results in higher residential customer sales for the Rate Year as compared to Penelec's forecast, with a total kilowatt-hours (kWh) forecast, for all customers, of 62,038,332 kWh, compared to Penelec's forecast of 61,777,587 kWh. This increase in the sales forecast results in Rate Year base delivery revenues at current rates of $2,199,336, or an increase of $2,367 from Penelec's forecast of $2,196,968.

Adjustments to Operating and Maintenance Expenses

Penelec forecasted Rate Year operating and maintenance expenses of $1,086,019, which is equal to its Historic Test Year amount. While the Commission often increases various historic test year expenses by general inflation, such an increase is not warranted in this case as the Company's operating and maintenance expenses have increased and decreased over the past several years. As such, we find the Company's Rate Year forecast of $1,086,019 reasonable.

Adjustments to Taxes Other Than Income Taxes

Penelec forecasted Rate Year taxes other than income taxes of $281,984, which is equal to its Historic Test Year amount. Taxes other than income taxes include real estate taxes, New York general business franchise tax, Waverly Village gross income tax, New York gross income tax, and payroll taxes. While the Commission often increases historic test year taxes other than income taxes when forecasting the rate year levels, such an increase for real estate taxes, general business franchise tax, and the New York gross income tax are not warranted in this case. With regard to real estate taxes, the Company's real estate taxes have fluctuated, both increasing and decreasing over the past several years. With regard to the New

York general business franchise tax and New York gross income tax, these taxes have remained relatively constant for the past five years. As such, we find the Company's Rate Year forecast of $167,407 for real estate taxes, $10,040 for the New York general business franchise tax, and $37,875 for the New York gross income tax reasonable. We address Waverly Village gross income tax and payroll taxes below.

1. Waverly Village Gross Income Tax

Penelec forecasted Rate Year Village of Waverly gross income tax of $33,256, which is equal to its Historic Test Year amount. The Village of Waverly assess gross income tax at one percent of the Company's gross income. As such, the Village of Waverly gross income tax should be forecasted by applying the one percent to the Rate Year forecast of gross income from Waverly District residential customers. Therefore, we adjusted the Rate Year forecast for Waverly Village gross income tax to $34,153, an increase of $897.

2. Payroll Taxes

Penelec forecasted Rate Year payroll taxes for the Waverly District by applying the New York allocation factor of 0.62 percent to its total Historic Test Year payroll taxes expense. Traditionally, the Commission applies the payroll taxes rate to the Rate Year labor expense to determine an appropriate payroll taxes expense allowance. However, as the Company does not provide specific costs of rendering service to the Waverly District, that methodology does not work in this instance. The Company did provide historical payroll taxes data, which shows that the expense has been increasing over the last several years. Absent the ability to specifically forecast payroll taxes based on labor expense, the Commission applied a general inflator factor of 8.33 percent to the Historic Test

Year amount. This adjustment results in a total payroll taxes expense of $43,231, a $3,269 increase in the Rate Year forecast.

Electric Rate Base

1. Adjustments to Net Plant

Penelec forecasted an average net plant balance, which is the average plant-in-service balance less the average depreciation reserve balance, of $13,776,899 for its Historic Test Year. The Company used its Historic Test Year average net plant balance as its Rate Year average net plant balance to calculate the rate base for the Rate Year. The Commission's adjustments to the average Rate Year plant-in-service balance, depreciation reserve balance, and resulting net plant balance are explained below.

a. Plant-in-Service, Capital Additions and Retirements

Penelec forecasted the Rate Year average plant-in-service balance to be the same as the Historic Test Year level. The Company's forecast of average plant-in-service balance for the Rate Year is $20,127,069. To develop a more accurate forecast of the Rate Year average plant in service balance, the Commission calculated a five-year average of historical plant additions and retirements to reflect blanket capital work, on a per-account basis. Anticipating that level of capital investment will continue, we used those five-year averages to forecast capital additions and retirements through the end of the Rate Year. The resulting forecast of the average plant-in-service balance during the Rate Year is approximately $20,929,840, or an $802,771 increase to the Company's forecast.

b. Accumulated Depreciation

Penelec forecasted the Rate Year average accumulated depreciation balance to be $6,350,170, which is the same as the Company's average accumulated depreciation balance from the

Historic Test Year. To develop a more accurate forecast of the Rate Year average accumulated depreciation balance, the Commission used the five-year average of historical retirements, on a per-account basis, to forecast retirements through the end of the Rate Year, like the process used to forecast plant-in-service. As a result, the Rate Year average of accumulated depreciation is approximately $6,933,451, or a $583,281 increase to the Company's forecast.

c. Average Net Plant Balance

As a result of the adjustments to the average plant-in-service balance and the average accumulated depreciation balance, the Commission increased Penelec's Rate Year average net plant balance by $219,490, from the Company's forecast of $13,776,899 to $13,996,389.

2. Adjustment to Materials and Supplies

Penelec forecasted Rate Year materials and supplies inventory as $94,962, which is the same as its Historic Test Year amount. The Commission used the average of Penelec's materials and supplies balances for the most recent two years to forecast the Rate Year. As a result, the forecasted materials and supplies balance in the Rate Year is approximately $101,871, or $6,909 higher than Penelec's forecast.

3. Depreciation Expense

Penelec forecasted the Rate Year depreciation expense to be $355,568. Penelec calculated the Rate Year depreciation expense using the average of the annual plant-in-service beginning and ending balances, multiplied by the current annual depreciation rates.

The Commission updated the Rate Year depreciation expense to reflect the adjusted plant-in-service balances identified above, multiplied by the current annual depreciation rates. This results in a Rate Year depreciation expense of

$363,421, an increase of $7,673 to Penelec's Rate Year forecast of $355,568.

Rate of Return

In its filing, Penelec requested a 5.37 percent after-tax rate of return for the Rate Year ending April 30, 2024. The Company's based its requested rate of return on a 50.10 percent common equity ratio, a 6.53 percent return on equity (ROE), and a 4.21 percent cost of long-term debt.

In determining the appropriate capital structure to use in this instance, we considered the capitalizations of both the parent company, FirstEnergy, and the operating subsidiary, Penelec. As of June 30, 2022, FirstEnergy had a capitalization consisting of a 33.50 percent common equity ratio, while Penelec had a stand-alone capitalization consisting of a 50.10 percent common equity ratio.[9] Typically, it is the Commission's practice to set rates using the consolidated capital structure of the parent company if there is insufficient ring-fencing between the parent company and the utility operating subsidiary. However, when sufficient ring-fencing provisions are in place, the Commission may consider utilizing the stand-alone capital structure of a utility-operating subsidiary. In New York State, most of the major utility operating companies have ring-fencing protections in place which insulate them from the higher risks posed by their respective parent companies and affiliates.

Although FirstEnergy has a number of ring-fencing measures in place, its measures are modest relative to most of the major New York electric and gas utility companies. However, these ring-fencing measures have been recognized by Standard and Poor's Global Ratings (S&P) as sufficient to insulate Penelec

[9] Penelec's stand-alone capital structure consisting of a 50.10 percent common equity ratio is representative of both its New York and Pennsylvania operations, as of June 30, 2022.

from the risks posed by FirstEnergy.[10] Therefore, due to the recognition of these ring-fencing measures as sufficient by S&P to protect Penelec from any undue harm that could be caused by its parent company, we find that Penelec's stand-alone capitalization, consisting of a 50.10 percent common equity ratio, is reasonable to set rates in this proceeding.[11]

Regarding the cost of long-term debt, in its Rate Filing, Penelec indicated that its weighted average cost of debt is 4.21 percent.[12] This reflects Penelec's actual cost of debt as of June 30, 2022. We reviewed Penelec's outstanding long-term debt issuances and concur that a cost rate of 4.21 percent is reasonable to set rates in this proceeding.

In estimating the cost of equity for a regulated utility, the Commission has long supported a formulaic approach. Specifically, the cost of equity methodology employs a two-thirds weighting of the Discounted Cash Flow Model (DCF) and a one-third weighting of the Capital Asset Pricing Model (CAPM). Applying the DCF and CAPM methodologies to a proxy group of 28

---

[10] FirstEnergy has a credit rating of "BBB-" by S&P and a non-investment grade credit rating of "Ba1" by Moody's Investors Service (Moody's), whereas Penelec has a credit rating of "BBB" by S&P and "Baa1" by Moody's. A non-investment grade credit rating poses greater risk of default relative to that of an investment grade credit rating.

[11] We find this appropriate in the context of this proceeding as well. Specifically, we note that the Waverly District represents less than one percent of Penelec's customer base, and we are setting rates for the Waverly District based on the allocation of costs between Penelec's Pennsylvania and New York service territories. Furthermore, because Penelec has limited its revenue increase request to $300,000, its rate of return is restrained although its cost of service could justify a higher increase.

[12] The Waverly District does not issue its own debt, and it lacks a credit rating of its own. Instead, Penelec issues long-term debt to support the entire company, including the Waverly District.

publicly traded investment-grade electric and combination electric and gas utility companies results in an overall ROE of 8.99 percent, as of April 2023.

However, since Penelec chose to file a minor rate case, thereby limiting the rate increase to $300,000, we need to calculate a “fall-out” ROE derived from this limit. This fall-out ROE will be less than the cost of equity methodology would otherwise dictate. Therefore, considering the limitation of a $300,000 annual rate increase, coupled with a common equity ratio of 50.10 percent, a 4.21 percent cost of long-term debt, and the other components contained within the revenue requirement, the fall-out ROE is 6.17 percent.

Overall, we find that the authorization of a 6.17 percent ROE, a 4.21 percent cost of long-term debt, and a 50.10 percent common equity ratio are reasonable given the factors we discussed in this section of the Order. These cost of capital components are illustrated in the capital structure matrix, which is included in Appendix B, Schedule 7.

Customer Service

The Commission’s review of the Company’s customer service procedures and customer-facing documentation conducted in this proceeding demonstrated that its operations and practices conform to the requirements under the Home Energy Fair Practices Act (HEFPA) and the Commission’s regulations implementing HEFPA.

The Commission’s regulations also require utilities and municipalities to conduct testing of electric meters that are in service to ensure accurate customer billing.[13] The electric utilities also must file annual reports detailing the results of such testing. Penelec has not submitted the required

[13] 16 NYCRR §92.10; 16 NYCRR Part 92 Operating Manual.

annual meter test reports for the Waverly District. Therefore, within 60 days of the date of this Order, Penelec is directed to file a meter test plan for its in-service electric meters with the Secretary to the Commission. The filing shall include a description of the meter test equipment Penelec utilizes and verification that Penelec has personnel trained to conduct such testing. The filing shall also include a description of Penelec's in-service meter testing program, including the test method the Company utilizes.

Low Income Arrears Relief Program

The 2022-2023 New York State Budget included the Utility Arrears Relief Program (UARP), under which the Legislature appropriated $250 million to the Department of Public Service (the Department) to reduce the arrears accrued by New York ratepayers from March 7, 2020, until March 1, 2022 (Covered Period).[14] The UARP required that the Department, in consultation with the Energy Affordability Policy working group, establish a residential arrears reduction program to prioritize the $250 million allocation of State funds to eligible low-income customers.[15]

In addition to the UARP, the 2021-2022 State Budget included the Emergency Rental Assistance Program (ERAP) to be administered by the New York State Office of Temporary Disability Assistance (OTDA). The ERAP provides relief for up to 12 months of electric or gas utility arrears accrued on or after March 13, 2020. OTDA also provided enhancements to its existing Home Energy Assistance Program (HEAP), known as the Regular Arrears Supplement (RAS) Program. The RAS Program

[14] 2022-2023 New York State Budget – Aid to Localities Appropriation (Chapter 53 of the Laws of 2022 [UARP]), pp. 1141-1144.

[15] Id. at p. 1142.

provides a one-time benefit based on the customer's current arrears. As discussed in the Commission's Arrears Phase 1 Order, customers enrolled in HEAP, ERAP, and RAS are eligible for UARP.[16]

To administer the UARP funding, Department Staff requested arrears information from all electric and gas utilities serving customers in the State for the Covered Period. The Phase 1 Order defines "arrears," in part, as overdue balances on customer accounts that are 60 days or older. To meet this timing requirement, Department Staff requested arrears information from utilities as of May 1, 2022 to ensure the identification of arrears that accrued during the Covered Period which were 60 days or older. On April 26, 2022, Department Staff sent an email to all utilities and municipalities, including Penelec, informing each entity of the State UARP appropriation and requesting that arrears data to facilitate the allocation of UARP funds to low-income customers. The requested data included total arrears during the Covered Period for residential customers participating in a utility energy affordability programs, HEAP, RAS, and/or ERAP. On May 4, 2022, Department Staff sent an additional letter with a similar request to utilities or municipalities that did not respond to the previously mentioned email, including Penelec. On May 13, 2022, Department Staff sent a third request via email to Penelec, requesting the Company provide contact information for an appropriate Company representative to discuss the use of the appropriated funds for the Company's low-income customers in arrears. Penelec never responded to the three requests

[16] Case 14-M-0565 et al., Proceeding on Motion of the Commission to Examine Programs to Address Energy Affordability for Low Income Utility Customers, Order Authorizing Phase 1 Arrears Reduction Program (issued June 16, 2022) (Arrears Phase 1 Order), p. 13.

Department Staff sent and, consequently, UARP funds for low-income customer arrears relief could not be allocated to any of Penelec's customers.

In this proceeding, the Company stated in its response to an IR that it was unable to locate the letter and two emails sent by Department Staff requesting Penelec participate in UARP.[17] Nevertheless, in a response to a follow-up IR, the Company confirmed that the mailing address to which Department Staff mailed the May 4, 2022 letter and the email addresses to which the Department addressed its email communications on April 26 and May 13, 2022 were valid.[18]

During this proceeding, Department Staff also requested Covered Period arrears data, similar to what Department Staff requested during the development of the UARP. The Company responded that 47 HEAP customers were in arrears greater than 60 days in the Covered Period, with an associated aggregated total of $61,219.[19] The Company noted in its response that some of the arrears may have occurred before the Covered Period, but did not explain why such arrears were included in the response. In a separate IR response,[20] the Company stated that six additional customers had pending ERAP applications with arrears greater than 60 days in the Covered Period, which totaled $26,741 in arrears owed to the Company. This results in Covered Period low-income customers' arrears of $87,960. Had Penelec responded to Department Staff's multiple requests to provide data so its customers could benefit from the UARP, Department Staff would have imputed the $87,960 into the

[17] Company response to IR DPS-024.

[18] Company response to IR DPS-027.

[19] Company response to IR DPS-024.

[20] Company response to IR DPS-027.

calculation to determine Penelec customers' allocation from the $250 million appropriation. Based on Department Staff's calculation, the Company would have been allocated $50,549 of the $250 million appropriation to reduce eligible Penelec customers' arrears.

The Company's low-income customers located within New York State are entitled to the same arrears relief that other low-income residents were provided throughout the State through UARP. The Company's inaction resulted in its most vulnerable customers failing to receive much-needed arrears relief. The Commission therefore directs the Company to reduce eligible low-income customers' arrears by up to $50,549, which is not recoverable from ratepayers, due to the Company's lack of participation in UARP.

Given the Company's response to IR DPS-27, which indicated that some of the arrears provided might have accrued before the Covered Period and that customers could have received ERAP payments to reduce arrears, the Company can develop more precise arrears data to provide eligible UARP customers the appropriate amount of arrears relief. Specifically, the Company shall review each customer's account for arrears prior to the Covered Period and for ERAP amounts applied to customers' accounts. If the adjusted total arrears are greater than the $50,549, the Company shall calculate a percentage and apply that percentage relief to eligible customers. If the adjusted arrears are less than $50,549, the Company shall reduce the full amount of arrears up to the adjusted amount. The Company shall provide to Director of Consumer Services or the Director's designee within 30 days of the date of this Order any adjustments made to the $50,549 arrears credit with an explanation and verification of such adjustments. Further, the Commission directs the Company to file a report within 60 days of the date of this Order demonstrating that the Company has applied the credits to the eligible low-income customers. The report shall include an explanation if the Company adjusted the arrears by a different amount than $50,549.

As discussed above, the credits provided to reduce eligible low-income customers' arrears is not recoverable from other ratepayers and the Company is to bear the costs. Should the Company believe that the circumstances surrounding this issue warrant different treatment, the Company shall, in its report, provide an explanation why shareholders should not be responsible for the costs and offer alternative cost recovery solutions for Commission consideration.

Revenue Allocation and Rate Design

As part of its Rate Filing, Penelec proposed to allocate the revenue increase to all service classifications on an equal basis. Appendix C lists the Waverly District service classifications. While Penelec supported the allocation of costs from Penelec to the Waverly District with a cost of service study, that study did not specifically allocate the Waverly District costs to individual service classifications. Without a study to support a particular allocation of costs between service classifications, it is reasonable to allocate the annual revenue increase equally among the service classifications. Appendix C, Schedule 1 contains a comparison of the current and Commission approved rates for all service classifications. Appendix C, Schedules 2 through 12 set forth the corresponding bill impacts related to the current and Commission-approved rates. These Commission-approved rates shall become effective on July 1, 2023.

Intra-corporate Consolidation of Penelec and FirstEnergy

On March 6, 2023, Penelec filed a petition, pursuant to PSL §70, seeking authorization for a proposed intra-corporate merger that would consolidate Penelec and FirstEnergy's three other Pennsylvania distribution operating companies into one corporation, FirstEnergy Pennsylvania Electric Company (FE PA).[21] If approved, FE PA would become the operating entity with separate rate districts that match the existing operating companies' respective service territories. We discuss the Merger Petition in this Order solely to explain a potential interaction between it and the rates set in this proceeding. Department Staff has been and continues to review the Merger Petition and the Commission does not take any position on the merits of the Merger Petition at this time.

In the Merger Petition, the Company notes a number of benefits of the proposed merger, including consolidation of required financial statements and filings as well as lower debt costs. According to the Company, these benefits should result in savings for ratepayers. However, given that the Waverly District represents less than one percent of Penelec, any potential savings will be small. Additionally, since Penelec has demonstrated that its cost of service for the Waverly District would support a revenue increase in excess of the $300,000 it requested and that we authorize in this Order, any imputed savings would not impact the revenue requirement increase authorized in this proceeding. As such, we find it reasonable to set rates as discussed herein. In the event the review of this proposed merger results in the need to impute additional savings or benefits, we will address that when we consider the merits of the Merger Petition.

[21] Case 23-E-0118, Penelec – Intra-Corporate Merger, Petition of Penelec for an Order Authorizing the Proposed Intra-Corporate Merger Pursuant to PSL §70 (dated March 6, 2023)(Merger Petition).

CONCLUSION

Based on the foregoing, the Commission authorizes Penelec to increase its annual revenues by $300,000, an increase of approximately 13.44 percent of base revenues, or 3.46 percent of total revenues, effective July 1, 2023. The additional revenue will allow the utility to continue to provide safe and adequate electric service to its customers.

The Commission orders:

1. Pennsylvania Electric Company is directed to file a cancellation supplement, effective on not less than one day’s notice, on or before June 26, 2023, canceling the tariff amendments listed in Appendix A.

2. Pennsylvania Electric Company is directed file, on not less than five days’ notice, to become effective on July 1, 2023, further tariff revisions establishing the approved rates as shown in Appendix C and any other tariff changes consistent with the discussion in the body of this Order.

3. Within 60 days of this Order, Pennsylvania Electric Company shall reduce eligible low-income customers’ arrears by up to $50,549, consistent with the discussion in the body of this Order.

4. Within 60 days of this Order, Pennsylvania Electric Company shall file with the Secretary to the Commission a report demonstrating that it has reduced customer arrears and including the information described in the body of this Order.

5. Pennsylvania Electric Company is directed to provide its customers with notification of the Commission’s determination in this Order no later than 60 days following the issuance of this Order, either by individual customer notification or by newspaper publication once a week for four consecutive weeks.

6. Pennsylvania Electric Company is directed to file with the Secretary to the Commission, no later than six weeks after the issuance of this Order, a copy of the customer notification, required by Ordering Clause No. 5, and an attestation that is has complied with Ordering Clause No. 5.

7. Within 60 days of the date of issuance of this Order, Pennsylvania Electric Company shall file with the Secretary to the Commission an electric meter test plan as described in the body of this Order.

8. In the Secretary's sole discretion, the deadlines set forth in this Order may be extended. Any request for an extension must be in writing, must include a justification for the extension, and must be filed at least three days prior to the affected deadline.

9. This proceeding is closed pending compliance with the above Ordering Clauses.

By the Commission,

(SIGNED) MICHELLE L. PHILLIPS
Secretary

SUBJECT: Filing by PENNSYLVANIA ELECTRIC COMPANY

Amendments to P.S.C. No. 7 – Electricity

First Revised Leaves Nos. 1, 12, 63, 101, 105, 109, 110, 113, 117, 122, 127, 129, 130, 131

Issued: November 28, 2022 Effective: July 1, 2023

SAPA: 22-E-0668SP1 – STATE REGISTER – December 28, 2022.

NEWSPAPER PUBLICATION: December 6, 13, 20, and 27, 2022